

PUBLIC DISCLOSURE

JULY 14, 2008

DANVERSBANK

90185

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DANVERS, MASSACHUSETTS 01923**

**Division of Banks
One South Station
Boston, MA 02110**

**Federal Deposit Insurance Corporation
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Braintree, MA 02184**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.</p>

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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Federal Deposit Insurance Corporation ("FDIC") and the Massachusetts Division of Banks ("Division") to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Danversbank (or the "Bank")** prepared by the FDIC and the Division, the institution's supervisory agencies, as of **July 14, 2008**. The agencies evaluate performance in the assessment area, as it is defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The FDIC and the Division evaluate the CRA performance of an institution consistent with the provisions set forth in Part 345 of the FDIC's Rules and Regulations and 209 CMR 46.00.

INSTITUTION RATING

Danversbank is rated "**Satisfactory**" by the FDIC.

Danversbank is rated "**High Satisfactory**" by the Division.

Although both agencies agree on the overall performance of the Bank, the FDIC's rating matrix does not provide for a "High Satisfactory" overall rating.

An institution in this group has a good record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods in a manner consistent with its resources and capabilities. The following table presents Danversbank's performance level with respect to the Lending, Investment, and Service Tests.

Lending, Investment, and Service Test Ratings Table

Performance Levels	DANVERSBANK		
	Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X		
Satisfactory**		X	
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

**FDIC rules and regulations stipulate use of a "high satisfactory" and "low satisfactory" rating for the three tests to categorize performance within a "satisfactory" range. For purposes of this jointly issued public evaluation, the term "satisfactory" will be used in lieu of the low satisfactory rating for the lending, investment, and service tests.

LENDING TEST

The institution is rated “High Satisfactory” under the Lending Test. This rating is supported by consideration of the following factors.

Lending Activity

- Danversbank originated a majority of its small business and home mortgage loans inside the assessment area in 2006 and 2007 combined. Given the competitive nature of the assessment area, the Bank’s overall percentage is considered adequate. In 2006, Danversbank ranked 24th out of 129 institutions in terms of its small business lending performance and 51st out of 480 institutions in terms of its home mortgage lending. The Bank’s average net loan-to-deposit ratio, at 88.9 percent, indicates good responsiveness to the credit needs of its assessment area.

Geographic Distribution

- The distribution of small business and home mortgage loans reflects adequate dispersion throughout the assessment area, particularly in low- and moderate-income geographies, when compared to demographic data for the period under review and to the aggregate lending performance in 2006.

Borrower Characteristics

- The distribution of small business and home mortgage loans reflects excellent penetration among businesses of different sizes and borrowers of varying income levels, particularly those of low- and moderate-income. Danversbank exceeded the 2006 aggregate in lending to small businesses and to low- and moderate-income individuals.

Community Development Loans

- The total number and dollar amount of community development loans decreased since the previous evaluation; however, the Bank still originated an adequate level of community development loans, considering the needs of the area and level of competition for this type of lending.

Innovative and Flexible Lending Programs

- The Bank made use of innovative and flexible lending programs to serve the credit needs of its assessment areas.

INVESTMENT TEST

Danversbank’s Investment Test Rating is “Satisfactory.” This rating is supported by the following conclusions.

Qualified Investments

- The level of qualified equity investments is considered adequate. During the evaluation period, the Bank disbursed or purchased an adequate level of community development investments.

Qualified Donations

- Danversbank and its recently-established charitable foundation, the Danversbank Charitable Foundation, Inc., provided a significant level of community development donations. These donations support several community organizations that provide community and economic development services as well as affordable housing initiatives throughout the designated assessment area that target low- and moderate-income individuals and families.

SERVICE TEST

The institution is rated “Outstanding” under the Service Test. This rating is supported by consideration of the following factors.

Retail Banking Services

- Danversbank’s retail delivery systems are readily accessible throughout the assessment area. Hours and services offered at the Bank’s 16 branch locations and stand-alone ATM network are tailored to the needs of various communities in the assessment area, including extended hours as well as Saturday and Sunday business hours.

Community Development Services

- Danversbank is a leader in providing community development services throughout the assessment area. Personnel of all levels throughout the institution are involved in the provision of financial or technical expertise to the benefit of several community development organizations.

DESCRIPTION OF INSTITUTION

Danversbank was chartered by the Commonwealth of Massachusetts as a mutual savings bank in 1850. The institution's main office is located at One Conant Street in Danvers, Massachusetts. In addition, the institution operates 15 branch locations in the following Massachusetts cities and towns; Andover, Beverly, Chelsea, Danvers, Malden, Middleton, Peabody, Reading, Revere, Salem, Saugus, Wilmington, Woburn, and a Commercial Banking Office in Boston. In addition to the Bank's main office and branch locations, Danversbank operates 6 remote automated teller machines (ATMs).

Through acquisitions, internal growth, and a continually expanding branch network, Danversbank experienced considerable growth since the previous FDIC evaluation, dated July 25, 2005, when Danversbank merged with BankMalden in 2007. Danversbank, the continuing institution, retained the former BankMalden's sole office as a branch location. The Bank opened its Boston branch in October 2005, a branch in Saugus in July 2007, and a second Malden location in June 2008.

In 1998, the Bank converted from a Massachusetts state-chartered mutual savings bank to a Massachusetts state-chartered stock savings bank. As part of the reorganization, Danversbank formed the mutual holding company, Danvers Bancorp, Inc., and became a wholly-owned subsidiary of Danvers Bancorp, Inc. The Bank also has several wholly-owned subsidiaries including: Conant Investment Corporation; Danvers Square Investment Corporation; One Conant Capital, LLC; Five Conant Street Investment Corporation; and Conant Ventures, Inc. Through Conant Investment Corporation and Danvers Square Investment Corporation, Danversbank buys and sells securities. These corporations also hold securities on behalf of Danversbank. One Conant Capital, LLC was formed in 2006; the establishment and purpose of which is to originate and hold commercial real estate and commercial and industrial loans. Conant Ventures, Inc. is effectively inactive but may be utilized to hold deeds of properties obtained by Danversbank. Industrial revenue bonds underwritten by Danversbank are held by its wholly-owned subsidiary, Five Conant Street Investment Corporation, which was established in 2008. In January 2008, Danvers Bancorp, Inc. completed its conversion to full stock ownership, now registered with the NASDAQ Stock Market LLC, trading under ticker symbol DNBK.

The Bank offers an array of loan products including commercial and industrial loans, commercial real estate loans, construction loans, owner-occupied residential mortgages and consumer loans. The Bank also provides a variety of deposit and non-deposit products, including investment products and services, cash management, debit and credit card products and online banking services.

As of March 31, 2008, the Bank had total assets of approximately \$1.6 billion, which included \$971 million (61.6 percent) in loans. Securities represented the next largest portion at \$458 million, or 29.1 percent of total assets. As of March 31, 2008, total deposits were \$1.2 billion. Table 1 depicts the composition of the institution's loan portfolio as of March 31, 2008.

Table 1 – Loan Distribution as of March 31, 2008		
	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	120,999	12.5
1-4 Family Residential	249,576	25.7
Multi-Family (5 or more) Residential	28,704	2.9
Commercial Real Estate	357,850	36.8
Total Real Estate Loans	757,129	77.9
Commercial and Industrial	162,561	16.7
Consumer	4,683	0.5
All Other Loans (Excluding Consumer)	47,362	4.9
Less Unearned Income	(946)	--
Total Loans	970,789	100.0

Source: Report of Condition

As Table 1 illustrates, the largest portion of the Bank's loan portfolio consists of commercial real estate loans at 36.8 percent, followed by 1-4 family residential loans at 25.7 percent and commercial and industrial loans representing 16.7 percent of the loan portfolio. These percentages reflect the Bank's focus on commercial lending and increasing concentration on commercial and industrial lending since the previous evaluation.

The FDIC last evaluated the Bank for CRA on July 25, 2005. The Division's last evaluation was May 16, 2002. Each evaluation assigned an overall CRA rating of "Outstanding."

No significant financial or legal impediments existed during the evaluation period that limited the Bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires financial institutions to define specific assessment area(s) within which the bank will concentrate its lending efforts. The Division and the FDIC evaluate an institution's CRA performance within one or more defined assessment areas. Assessment areas are expected to consist of Metropolitan Statistical Areas (MSAs), Metropolitan Divisions (MDs), or contiguous political subdivisions such as counties, cities, towns, or census tracts. Danversbank has defined two assessment areas, a primary (PAA) and a secondary assessment area (SAA), which meet the technical requirements of the regulation. The areas are made up of whole geographies and do not arbitrarily exclude low- or moderate-income areas.

Primary Assessment Area

Danversbank defined its PAA as 26 municipalities within Essex, Middlesex, and Suffolk Counties in Massachusetts. The majority of the assessment area consists of cities and towns (17) within the borders of Essex County, including; Andover, Beverly, Boxford, Danvers, Hamilton, Ipswich, Lynnfield, Middleton, Newbury, Newburyport, North Andover, Peabody, Rowley, Salem, Saugus, Topsfield, and Wenham. The Essex County municipalities, as of February 2007, are part of the Peabody, MA MD, which was formerly the Essex County, MA MD. The cities and towns of Burlington, Malden,

North Reading, Reading, Wakefield, Wilmington, and Woburn are part of Middlesex County and the Cambridge-Framingham-Newton, MA MD (#15764); Chelsea and Revere are part of Suffolk County and the Boston-Quincy, MA MD (#14484). Each of the MDs included, in part, within the PAA, are part of the broader, Boston-Cambridge-Quincy, MA-NH MSA.

The PAA consists of 111 census tracts, of which 2 or 1.8 percent are low-income, 21 or 18.9 percent are moderate-income, 59 or 53.2 percent are middle-income, and 29 or 26.1 percent are upper-income census tracts.

Secondary Assessment Area

Since Danversbank opened a branch in the Financial District of Boston in October 2005, the institution, per CRA requirements, designated the one census tract (upper-income) in which its Boston office is located as its SAA.

Demographic and Economic Data

Census Tract Income Levels

Each assessment area census tract is assigned an income level based on the median family income ("MFI") of the tract as compared to the MFI established for the MSA or MD in which the tract is located. MFI figures are based on 2000 U.S. Census data; however, HUD adjusts these figures annually for inflation and other economic events. These adjusted figures are depicted in Table 2.

Table 2 – Median Family Income Levels		
MSA/MD	2006	2007
Boston-Quincy, MA (MD)	\$77,000	\$76,900
Essex County, MA (MD)	\$78,200	\$77,200*
Cambridge-Newton-Framingham, MA (MD)	\$90,900	\$88,900

Source: HUD

*Essex County MA (MD) changed to Peabody MA (MD) per Federal Reserve

Notice February 7, 2007 re: 2007 data collection.

Primary Assessment Area

The total population of the PAA is 609,182. This population consists of 232,473 households, of which 12.7 percent are located within the low-income census tracts and 20.1 percent within the moderate-income tracts. Further, of the total households in the assessment area, 38.1 percent are characterized as low-income households and 40.4 percent moderate-income households. Of the 2,945 low-income households, 31.0 percent are considered below the poverty level.

The analysis of the institution's home mortgage lending includes comparisons to the distribution of families by income level. Of the 157,389 families in the PAA, 18.5 percent are designated low-income and 17.6 percent moderate-income. Table 3 shows the distribution of families in the Bank's PAA based on 2000 U.S. Census data.

Table 3 – Number and Percentage of Families by Income Level		
Income Category	2000 Census	
	Number of Families	% of Total Families
Low-Income	29,188	18.5
Moderate-Income	27,699	17.6
Middle-Income	36,499	23.2
Upper-Income	64,003	40.7
Total	157,389	100.0

Source: CRA Wiz and 2000 U.S. Census Data

Secondary Assessment Area

Total inhabitants of the SAA, as of the 2000 U.S. Census, come in at 4,074. Further analysis indicates that the SAA is home to 681 families, of which 16.7 percent are low-income, 8.5 percent moderate-income, 12.4 percent middle-income, and 62.4 percent upper-income families. A sub-set of low-income families are those that are below the poverty level, which constitute 6.3 percent of SAA families.

Housing Characteristics

Primary Assessment Area

According to 2000 U.S. Census data, the PAA contains 239,341 housing units, of which 152,315 or 63.6 percent are owner-occupied and 80,328 or 33.6 percent are occupied rental units. Only less than one-half of one percent of the owner-occupied housing units is located within the assessment area's low-income census tracts. A substantial majority of units are located within middle- and upper-income census tracts, representing 55.7 percent and 31.4 percent of total owner-occupied housing units, respectively. The vacancy rate throughout the assessment area is 2.8 percent.

Table 4 illustrates selected housing characteristics within the PAA based on 2000 U.S. Census data.

Table 4 – Housing Characteristics by Income Category of Census Tract								
Census Tract Income Category	Percentage					Median		
	House- holds	Housing Units	Owner- Occupied Housing Units	Occupied Rental Units	Vacant Units	Age	Home Value	Gross Rent
Low	1.3%	1.3%	0.5%	2.8%	2.2%	55	\$152,056	\$713
Moderate	20.1%	20.1%	12.4%	34.7%	22.8%	52	\$180,413	\$707
Middle	54.9%	54.9%	55.7%	53.5%	51.3%	43	\$217,057	\$804
Upper	23.7%	23.7%	31.4%	9.0%	23.7%	35	\$306,878	\$712
Total or Median	100.0%	100.0%	100.0%	100.0%	100.0%	41	\$245,625	\$760

Further analysis of the PAA housing stock reveals that 191,347 of the housing units, or 80.0 percent, are 1-4 family dwellings and 46,250 or 19.3 percent are multi-family (5+) dwellings. The remaining units include mobile homes and other units comprising only 0.7 percent of total housing stock in the assessment area. A majority of the 1-4 family units are located within middle- or upper-income census tracts (80.6 percent); whereas, 30.0 percent of the multi-family dwellings are located in the area's low- or moderate-income census tracts and 60.0 percent are located in middle-income geographies. Furthermore, the majority of units in the low- and moderate-income tracts are occupied rentals. Consequently, the opportunity for home mortgage lending in these geographies of the PAA is limited.

Although the 2000 U.S. Census data indicates a range of assessment area home values between \$152,056 in low-income geographies to \$306,878 in upper-income geographies, more recent information obtained from *The Warren Group* indicates significantly higher median sales prices for 2006 and 2007. Table 5 outlines the median sales price and number of sales for each PAA municipality for calendar year 2007, as well as the percentage of change in median sales price and number of sales compared to 2006 data.

Table 5 – 2007 Housing Data				
City/Town	2007 Median Sales Price	% Increase/ (Decrease) from 2006	2007 # of Sales	% Increase/ (Decrease) from 2006
Andover	\$500,000	13.9%	487	(12.7%)
Beverly	\$335,000	(4.3%)	534	(1.3%)
Boxford	\$607,450	3.9%	100	(10.7%)
Burlington	\$418,500	4.8%	263	(15.7%)
Chelsea	\$251,440	(23.7%)	250	(33.9%)
Danvers	\$380,000	4.6%	317	(10.5%)
Hamilton	\$430,448	(13.0%)	86	(5.5%)
Ipswich	\$399,900	(4.5%)	190	9.2%
Lynnfield	\$560,000	5.9%	179	54.3%
Malden	\$321,000	(1.8%)	543	(22.5%)
Middleton	\$331,000	(27.7%)	206	15.5%
Newbury	\$465,000	(3.1%)	97	(5.8%)
Newburyport	\$380,000	(3.4%)	379	(15.4%)
North Andover	\$345,000	(3.6%)	490	(21.2%)
North Reading	\$390,000	(0.6%)	244	None
Peabody	\$336,000	(1.1%)	545	(10.7%)
Reading	\$400,000	(1.7%)	321	(12.1%)
Revere	\$300,000	(11.5%)	485	(33.4%)
Rowley	\$413,500	(11.1%)	82	(23.4%)
Salem	\$294,500	(7.5%)	597	(16.6%)
Saugus	\$335,000	(4.7%)	322	(15.5%)
Topsfield	\$483,500	(6.0%)	70	9.4%
Wakefield	\$375,000	(1.3%)	380	(6.4%)
Wenham	\$576,050	(19.9%)	60	39.5%
Wilmington	\$380,000	(5.9%)	263	(1.1%)
Woburn	\$345,000	(3.4%)	399	(8.3%)

As demonstrated in Table 5, median sales prices decreased in 21 of the primary assessment area's 26 cities or towns between 2006 and 2007. The range of median sales prices throughout the PAA in 2007 is \$251,440 in Chelsea to \$607,450 in Boxford, which further highlights the significantly higher cost of housing than reflected in the 2000 U.S. Census.

It is important to note that low- and moderate-income families would likely have difficulty qualifying for mortgages even though the median sales prices have decreased between 2006 and 2007. This data further indicates that the opportunities for the Bank to extend home mortgage loans to low-and moderate-income borrowers within the PAA are limited.

Secondary Assessment Area

The SAA includes 2,347 households, of which 681 are families. A total of 32.0 percent of the 2,610 housing units are owner-occupied, 58.1 percent are occupied rentals, and 9.9 percent are vacant units. The age of housing stock averages 33 years. The median housing value, according to the 2000 U.S. Census data, is \$378,400, and the median gross rent is \$1,232. Only 3.6 percent of the SAA's housing stock is 1-4 family, with a substantial majority (96.4 percent) being multi-family. More recent data obtained from *The Warren Group* reveal a \$550,250 median sales price throughout the Back Bay, Beacon Hill, North End, and South End neighborhoods of Boston, which represents a 5.0 percent increase in median sales price since 2006. The number of home sales in these neighborhoods decreased to 2,374 in 2007, an 11.5 percent decline from 2006.

Employment

The unemployment rate in 2006 ranged from 4.0 percent in Middlesex County to 5.1 percent in Essex and Suffolk Counties. The unemployment rate decreased between 2006 and 2007 for each County, ranging from 3.7 percent in Middlesex County to 4.7 percent in Essex County. The 2007 unemployment rate in Middlesex County is significantly lower than the Massachusetts rate at 4.5 percent and the U.S. rate at 4.6 percent. Since the previous FDIC evaluation conducted in July 2005, the annual unemployment rate for each county in which the Bank has designated its assessment areas has demonstrated a decreasing (positive) trend.

Business Demographics

Primary Assessment Area

Business demographic data for 2006 indicate that the PAA is home to 48,824 non-farm businesses, of which 31,315 or 64.4 percent have gross annual revenues ("GARs") of \$1 million or less. Additionally, a majority of non-farm businesses (32,822) employ fewer than 10 individuals; only 1,386 non-farm businesses (2.8 percent) employ more than 50 individuals. Of all businesses within the PAA, only 740 (1.5 percent) are located in low-income census tracts, 7,615 (15.6 percent) are in moderate-income census tracts, 28,377 (58.1 percent) are in middle-income census tracts, and 12,092 (24.8 percent) are located in upper-income census tracts. Although the number of businesses in the PAA increased by 1.8 percent between 2006 and 2007 distribution by GAR and income-level of census tract remained relatively constant.

Of the total non-farm businesses located within the Bank's PAA, 88.0 percent are single location businesses and 86.1 percent own the property on which they are located. According to 2006 business demographic data, service industry firms make up the most significant percentage of businesses.

Secondary Assessment Area

As of 2006, the Bank's SAA was home to 4,756 non-farm businesses, of which 54.3 percent had GAR of \$1 million or less. Single location businesses comprise 79.0 percent, and 85.6 percent own the property on which the business is located. Nearly half of SAA businesses fall within the service industries category, followed by finance, insurance, and real estate, which represents 19.0 percent of businesses in the area.

Competition

Small Business Lending

Primary Assessment Area

Danversbank operates in a competitive small business lending environment. Market share reports for 2006 reveal that 129 financial institutions originated at least one small business loan in Essex, Middlesex, or Suffolk Counties. Based on limitations in the aggregate data, census tract level activity is unavailable and defaults to the county level.

It should also be noted that the aggregate figures do not include loans made by intermediate small institutions (institutions whose total assets are \$265 million or greater but less than \$1.061 billion) that have opted *not* to report data on their small business loan originations or purchases. In an effort to achieve a more valid comparison to aggregate lenders, market share reports utilized in the analysis only include originations, as Danversbank did not purchase any small business loans in 2006 or 2007.

Of the 129 lenders identified, the top 5 are financial institutions that have a national presence and collectively account for 76.4 percent of total market share by number of loans. The average loan amount of these top 5 small business lenders ranged between \$4,000 and \$13,000, primarily representing commercial credit card lending. In 2006, Danversbank ranked 24th, with 0.14 percent of the market by number of loans and 1.47 percent by dollar volume.

As indicated, small business lending data is available at the county level only; therefore, comparisons of the Bank's small business lending activity to other institutions at the assessment area level are not possible. Nevertheless, county level comparisons provide sufficient data to draw fairly valid conclusions.

Secondary Assessment Area

Danversbank also faces a high level of competition for small business loans in Suffolk County, the county in which the Bank's SAA is located. The same top 5 lenders in the PAA also comprise the top 5 small business lenders in Suffolk County, accounting for 78.1 percent by dollar volume of loans originated in 2006. Danversbank ranked 26th out of 75, with 0.1 percent of total market share by number of loans.

Home Mortgage Lending

The Bank's primary competitors that operate branches in either the Bank's primary or secondary assessment area include, but are not limited to, Eastern Bank, East Boston Savings Bank, Salem Five Cent Savings Bank, and larger regional or national institutions such as Bank of America, Citizens Bank, and Sovereign Bank.

Primary Assessment Area

Danversbank operates in a business environment that is highly competitive with regard to home mortgage lending. Market share reports indicate that a total of 480 financial institutions originated and reported at least one home mortgage loan within the Bank's PAA in 2006. Danversbank did not purchase any home mortgage loans; hence, market rank reports generated for this evaluation do not include home mortgage loan purchases to provide a fair comparison. The top 10 home mortgage originators are primarily large mortgage companies and national or regional banks that account for nearly one-third (30.8 percent) of the PAA market share, which leaves 470 other home mortgage lenders to compete for the remaining 69.2 percent of the market.

In 2006, Danversbank originated 128 home mortgage loans totaling \$26.7 million inside the PAA. This performance ranks Danversbank 51st, accounting for 0.5 percent of total market share by number of loans and 0.4 percent by dollar volume.

Secondary Assessment Area

Within the Bank's SAA, 54 financial institutions originated at least one home mortgage in 2006. Among these 54 institutions, 140 home mortgages, totaling \$54.3 million, were originated in 2006, indicating a limited opportunity for home mortgage lending in this census tract. Danversbank did not originate any home mortgages in the SAA in 2006 or 2007; however, the primary purpose for locating a loan production office in this single-tract assessment area was to generate small business loans and service the Bank's small business customers.

Community Contacts

A community development organization that provides affordable housing throughout portions of the institution's assessment areas was contacted in conjunction with this evaluation. The contact referenced the need for financial literacy courses, as well as support of local non-profit organizations through low- or no-cost business checking accounts. The contact indicated that Danversbank is actively involved in the communities in which it operates, and is responsive to community development needs through grants, donations, and services.

SCOPE OF EVALUATION

Danversbank was evaluated using “Large Bank” examination procedures. Current CRA guidelines define a large bank as one that had total assets greater than \$1.061 billion as of December 31 of either of the prior two calendar years. Large banks are evaluated under three tests: the Lending Test, the Investment Test, and the Service Test.

Although the Bank has designated two separate and distinct assessment areas, performance in the PAA only was analyzed in accordance with full scope examination procedures. The Bank’s performance in the SAA was reviewed utilizing limited scope procedures. Factors considered in using limited scope procedures for the SAA include: 1) limited geographic boundaries of the single census tract that comprises the SAA; 2) operation of the Boston location as a commercial loan production office; 3) limited opportunities for small business, home mortgage, and community development lending; 4) limited investment and service opportunities as defined by the CRA; and 5) demographics of the SAA. Therefore, emphasis was placed on the Bank’s performance within the PAA when assigning an overall CRA rating.

The review period for the Lending Test includes small business and home mortgage data from calendar years 2006 and 2007 under the *Lending Activity, Borrower Characteristics, and Geographic Distribution* evaluation criteria. The lending data used in the analyses was obtained from the Bank’s annual Home Mortgage Disclosure (“HMDA”) Loan Application Registers (“LARs”) and CRA Small Business Loan Registers (“SBLRs”) for 2006 and 2007. *Community Development Lending* and *Innovative and Flexible Lending Practices*, the two remaining criteria under the Lending Test, were analyzed using data since the previous FDIC CRA evaluation dated July 25, 2005.

The Bank’s loan portfolio is most heavily weighted within the category of commercial loans (including commercial real estate and commercial and industrial loans) at 53.5 percent, followed by home mortgage loans (including 1-4 family residential and multi-family) at 28.6 percent. Small business (commercial) loans not only represent a larger percentage of the Bank’s total loan portfolio, but the Bank’s business strategy also focuses on originating this category of loans. Therefore, for purposes of this evaluation, small business lending activity is assigned greater weight than home mortgage lending in formulating overall conclusions pursuant to the various Lending Test criteria. Consumer loans represent less than one-half of one percent of the Bank’s total loan portfolio, and the Bank does not have any small farm loans in its portfolio; as such, neither loan category is included in the Lending Test analyses. Furthermore, only those loans extended within the institution’s PAA are analyzed under the *Borrower Characteristics* and *Geographic Distribution* criteria.

The Investment and the Service Tests analyzed the Bank’s performance since the prior evaluation based on an assessment of those activities designated as “qualified” pursuant to CRA guidelines.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE PRIMARY ASSESSMENT AREA

A review of the FDIC and Division records as well as the Bank's Public CRA File did not reveal any complaints relating to the Bank's CRA performance since the prior evaluation.

LENDING TEST

The Bank's overall performance with respect to the Lending Test is rated High Satisfactory. The Bank's 2006 loan data was compared to 2000 U.S. Census demographic data and aggregate lending performance for 2006. The 2007 data was compared only to assessment area demographics since aggregate data was not available for 2007 at the time of the analysis.

Although both the number and dollar volume of the Bank's loans were analyzed, the number of originations is weighed more heavily than dollar volume, as the number of loans is less likely to be influenced by factors such as business size, an applicant's income level, or housing values. The following sections present the analyses conducted and conclusions reached regarding the Bank's performance within each of the applicable lending performance criteria.

Lending Activity

This Lending Test performance factor considers the following: (1) level of lending within the assessment area; (2) volume of lending relative to its internal capacity; and (3) level of lending relative to credit needs of the assessment area.

During the current two-year period under review, Danversbank originated 261 small business loans totaling \$46.7 million inside the PAA, representing a decrease in number of loans of approximately 27.6 percent since the prior evaluation. Dollar volume of loans; however, increased by 4.7 percent. The Bank originated nearly 55 percent fewer home mortgages during the current review period compared to the two years analyzed in the previous evaluation, and the dollar volume of home mortgages decreased by 47.9 percent. The decrease in lending activity within the PAA is primarily driven by competition, interest rate environment, and the state of the housing market during the most recent two-year period reviewed.

Although an analysis of the Bank's loan-to-deposit ("LTD") ratios is not formally a part of the Lending Test under large bank CRA parameters, it provides useful information in assessing the Bank's volume and level of lending relative to the Bank's internal capacity and the credit needs of the designated assessment area. A review of the Bank's LTD data for each quarter since the prior CRA evaluation indicates an average LTD ratio of 88.9 percent. This level of lending, relative to the Bank's deposit base, reflects good responsiveness to the credit needs of its assessment area.

Since the Bank's focus is on commercial loans, it was not possible to compare Danversbank's lending activity to a number of similarly situated institutions.

Table 6 illustrates the institution's record of small business and home mortgage lending inside and outside of the PAA in 2006 and 2007. Overall, the institution extended an adequate percentage of loans, both by number and dollar volume, inside this assessment area. As Table 6 shows, 63.6 percent of small business and home mortgage loans by number and 54.5 percent by dollar volume were originated inside the assessment area in 2006 and 2007, combined.

Table 6 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business										
2006	135	62.5	81	37.5	216	24,664	51.2	23,534	48.8	48,198
2007	126	60.9	81	39.1	207	22,053	45.9	26,037	54.1	48,090
Subtotal	261	61.7	162	38.3	423	46,717	48.5	49,571	51.5	96,288
Home Mortgage										
2006	128	68.5	59	31.5	187	26,710	56.4	20,625	43.6	47,335
2007	105	62.9	62	37.1	167	29,962	64.9	16,190	35.1	46,152
Subtotal	233	65.8	121	34.2	354	56,672	60.6	36,815	39.4	93,487
Total	494	63.6	283	36.4	777	103,389	54.5	86,386	45.5	189,775

Source: 2006 & 2007 HMDA LARs, and 2006 & 2007 CRA SBLRs

Small Business Lending

Danversbank extended an adequate percentage, or 62.5 percent by number and 51.2 percent by dollar volume, of all small business loans within the PAA in 2006. Demonstrating a relatively consistent performance by number of loans in 2007, the Bank extended 126, or 60.9 percent, by number of small business loans inside this assessment area; although, the dollar volume inside the PAA decreased to 45.9 percent during this timeframe.

Home Mortgage Lending

As Table 6 illustrates, 68.5 percent of home mortgage loans by number, and 56.4 percent by dollar volume, were extended inside the PAA in 2006. The Bank originated 62.9 percent by number and 64.9 percent by dollar volume of home mortgage loans inside the assessment area in 2007. Providing further insight as to how Danversbank met the credit needs of its PAA is the distribution of home mortgages by loan purpose (purchase, refinance, or home improvement). In 2006 and 2007, 27.6 percent and 25.0 percent, respectively, of home mortgages were for the purpose of home purchase. Furthermore, refinances represented 39.1 percent of home mortgages in 2006 and 42.9 percent in 2007; whereas, home improvement loans represented 29.5 percent and 35.9 percent of home mortgages in 2006 and 2007, respectively.

Although market factors were in play during 2006 and 2007, it was home purchase loans, rather than refinance and home improvement loans, that evidenced a positive trend in the number originated to low- and moderate-income homeowners. Nevertheless, in 2006, the percentages of home purchase loans to low- and moderate-income borrowers were considered reasonable within the Bank's performance context.

Geographic Distribution

The distribution of small business and home mortgage loans in the area's low- and moderate-income geographies is considered adequate when compared to assessment area demographics and aggregate lending data. The following sections discuss the Bank's performance with regard to each product line under this criterion.

Small Business Lending

Table 7 illustrates the Bank's small business lending activity by income level of census tract, as well as a breakdown of businesses by income level of census tract and the aggregate lending performance for 2006.

Table 7 – Distribution of Small Business Loans by Income Level of Census Tract											
Census Tract Income Level	2006 % of Businesses	2006 Aggregate Lending Data		2006 Bank		2006 Bank		2007 Bank		2007 Bank	
		% of #	% of \$	#	%	\$(000)	%	#	%	\$(000)	%
Low	1.5	0.9	2.1	1	0.7	675	2.7	4	3.2	545	2.4
Moderate	15.6	14.0	14.4	20	14.8	4,796	19.5	12	9.5	1,294	5.9
Middle	58.1	56.8	62.2	80	59.3	13,865	56.2	78	61.9	15,897	72.1
Upper	24.8	28.3	21.3	34	25.2	5,328	21.6	32	25.4	4,317	19.6
Total	100.0	100.0	100.0	135	100.0	24,664	100.0	126	100.0	22,053	100.0

Source: 2006 & 2007 CRA Data Collection, 2006 Business Demographic Data

As Table 7 shows, the Bank originated 0.7 percent of its small business loans in low-income census tracts of the PAA in 2006. This performance is somewhat lower than the 1.5 percent of businesses located in low-income census tracts and aggregate performance at 0.9 percent. The Bank demonstrated an increasing trend in 2007, extending 3.2 percent of loans in low-income tracts. In moderate-income geographies, the Bank's performance at 14.8 percent is slightly below the 15.6 percent of businesses in moderate-income census tracts, but exceeds the aggregate lending performance of 14.0 percent. The decrease in 2007 is indicative of competition and economic conditions, but is still reflective of adequate performance.

Home Mortgage Lending

The institution's dispersion of home mortgage loans throughout the PAA is adequate, considering assessment area demographics, competition, composition of housing stock, and the limited opportunity for lending in low- and moderate-income census tracts. Table 8 illustrates the Bank's performance in 2006 and 2007, and compares the Bank's 2006 data with the percentage of total owner-occupied housing units and the 2006 aggregate lending data by income level of census tract.

Table 8 – Distribution of Home Mortgage Loans by Income Level of Census Tract										
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2006 Aggregate Lending Data (% of #)	2006 Bank		2006 Bank		2007 Bank		2007 Bank	
			#	%	\$(000)	%	#	%	\$(000)	%
Low	0.5	1.2	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	12.4	18.4	14	10.9	2,291	8.6	11	10.5	1,769	5.9
Middle	55.7	55.2	67	52.3	11,084	41.5	61	58.1	16,246	54.2
Upper	31.4	25.2	47	36.8	13,335	49.9	33	31.4	11,947	39.9
Total	100.0	100.0	128	100.0	26,710	100.0	105	100.0	29,962	100.0

Source: 2006 and 2007 HMDA Data, 2000 U.S. Census Data

As Table 8 depicts, Danversbank did not extend any home mortgages in low-income census tracts in 2006 or 2007 compared to 0.5 percent of owner-occupied housing units located in these tracts. Owner-occupied housing units in the two low-income census tracts of the PAA comprises only 738 units, and a significant majority (75.5 percent) are rental units or vacant, thus limiting the opportunity for home mortgage lending in these geographies. However, aggregate lenders were able to perform at 1.2 percent in this segment of the PAA.

Danversbank made 10.9 percent of its home mortgage loans in the area's moderate-income geographies. This performance is less than both the percentage of the PAA's owner-occupied housing units (12.4 percent) and the aggregate lending performance of 18.4 percent. Further analysis revealed that, of all home mortgages made in moderate-income census tracts in 2006, four were home purchase and refinance loans and six were home improvement loans. According to market share reports from 2006, Danversbank ranked 50th in terms of the number of home mortgages originated in the area's moderate-income census tracts. Demonstrating a somewhat consistent trend, Danversbank originated 10.5 percent of its home mortgages in moderate-income geographies in 2007.

Borrower Characteristics

The Bank's lending reflects an excellent penetration among businesses of different sizes and borrowers of different income levels.

Small Business Lending

Table 9 illustrates the number and dollar volume of small business loans, the percentage of total businesses in the assessment area, and aggregate lending data from 2006, by GAR level.

Table 9 – Distribution of Small Business Loans By Gross Annual Revenues of Business											
Gross Annual Revenues (000s)	% of Total Businesses	2006 Aggregate Lending Data		2006 Bank		2006 Bank		2007 Bank		2007 Bank	
		% of #	% of \$	#	%	\$(000)	%	#	%	\$(000)	%
≤ \$1,000	64.1	30.9	34.6	57	42.2	7,325	29.7	64	50.8	7,799	35.4
> \$1,000	7.3	69.1*	65.4*	73	54.1	15,843	64.3	60	47.6	13,724	62.2
N/A	28.6			5	3.7	1,496	6.0	2	1.6	530	2.4
Total	100.0	100.0	100.0	135	100.0	24,664	100.0	126	100.0	22,053	100.0

Source: 2006 and 2007 CRA Data, 2006 U.S. Business Demographic Data

*Peer small business reports aggregate loans to businesses with GAR > \$1 million and those that have not reported revenues

As Table 9 shows, the institution extended 57, or 42.2 percent, of small business loans to businesses with GARs of \$1 million or less in 2006. This performance compares favorably with the aggregate lending performance of 30.9 percent, but is less than the percentage of businesses in the PAA at 64.1 percent. In 2007, the percentage of small business loans to businesses with GARs of \$1 million or less increased to 50.8 percent.

To serve as a proxy for the size of business to which a loan is extended and provide further insight into the Bank's performance of lending to the area's smallest businesses, Table 10 illustrates the Bank's small business loans by loan amount.

Table 10 – Distribution of Small Business Loans By Loan Amount										
Loan Amount (000s)	2006 Aggregate Lending Data		2006 Bank		2006 Bank		2007 Bank		2007 Bank	
	% of #	% of \$	#	%	\$(000)	%	#	%	\$(000)	%
≤\$100	96.7	42.2	78	57.8	3,669	14.9	74	58.7	3,949	17.9
>\$100 ≤ \$250	1.5	13.1	28	20.7	5,532	22.4	23	18.3	3,948	17.9
>\$250 ≤ \$1,000	1.8	44.7	29	21.5	15,463	62.7	29	23.0	14,156	64.2
Total	100.0	100.0	135	100.0	24,664	100.0	126	100.0	22,053	100.0

Source: 2006 and 2007 CRA Data Collection, 2006 U.S. Business Demographic Data

Table 10 indicates that a majority, or 57.8 percent, of the institution's small business loans in 2006 were for amounts less than \$100,000. In addition, Danversbank originated almost 80 percent of its loans in amounts less than or equal to \$250,000. While the Bank was outperformed by the aggregate, it is important to remember that the aggregate data is significantly influenced by large national banks that specialize in small revolving lines of credit, including credit cards. Danversbank's performance was relatively consistent from 2006 to 2007. The Bank's record of extending small loans to businesses, assuming that loans of small dollar amounts are likely made to small businesses, reflects, at a minimum, good performance in meeting the credit needs of this segment of the business world.

Home Mortgage Lending

The distribution of home mortgages to borrowers of varying income levels, particularly those of low- and moderate-income, is excellent, considering the demographics of the area, the cost of housing throughout the PAA, and the high level of competition for home mortgages.

As described under *Description of the Assessment Area*, borrower incomes are compared to HUD's adjusted MFI figures for the year in which the loan is originated. Table 11 provides the benchmarks for each income level based on the MFI for the Essex County, MA MD (Peabody, MA MD); the Cambridge-Newton-Framingham, MA MD; and the Boston-Quincy, MA MD. These figures are used to determine the Bank's home mortgage lending performance pursuant to this criterion.

Table 11 – 2006 and 2007 Median Family Income Levels					
Income Level	Percent of MFI	Year	Essex County, MA MD*	Cambridge-Newton-Framingham, MA MD	Boston-Quincy, MA MD
Low	Less than 50%	2006	\$39,100 or less	\$45,450 or less	\$38,850 or less
		2007	\$38,600 or less	\$44,450 or less	\$38,450 or less
Moderate	50% to < 80%	2006	\$39,101 to \$62,560	\$45,451 to \$72,720	\$38,851 to \$62,160
		2007	\$38,601 to \$61,760	\$44,451 to \$71,120	\$38,451 to \$61,520
Middle	80% to < 120%	2006	\$62,561 to \$93,840	\$72,721 to \$109,080	\$62,161 to \$93,240
		2007	\$61,761 to \$92,640	\$71,121 to \$106,680	\$61,521 to \$92,280
Upper	120% and greater	2006	\$93,841 and greater	\$109,081 and greater	\$93,241 and greater
		2007	\$92,641 and greater	\$106,681 and greater	\$92,281 and greater

Source: HUD data. *Essex County, MA MD changed to the Peabody, MA MD – February 2007.

Table 12 illustrates the distribution of Danversbank's home mortgage loans by borrower income for 2006 and 2007, and compares the Bank's 2006 performance to 2000 U.S. Census demographic data and the aggregate lending performance for that year. Performance for 2007 is compared to the census data only for analysis purposes since 2007 aggregate data was not yet available at the time of analysis.

Table 12 – Distribution of Home Mortgage Loans by Borrower Income										
Borrower Income Level	% of Total Families	2006 Aggregate Lending Data (% of #)	2006 Bank		2006 Bank		2007 Bank		2007 Bank	
		2006	#	%	\$(000)	%	#	%	\$(000)	%
Low	18.5	4.1	11	8.6	896	3.4	8	7.6	777	2.6
Moderate	17.6	16.6	30	23.4	3,615	13.5	16	15.2	2,315	7.7
Middle	23.2	29.9	26	20.3	4,549	17.0	29	27.6	6,252	20.9
Upper	40.7	43.1	47	36.8	13,528	50.7	38	36.3	14,482	48.3
N/A	0.0	6.3	14	10.9	4,122	15.4	14	13.3	6,136	20.5
Total	100.0	100.0	128	100.0	26,710	100.0	105	100.0	29,962	100.0

Source: 2006 and 2007 HMDA Data, 2000 U.S. Census Data

As reflected in Table 12, the Bank originated 8.6 percent by number of home mortgage loans to low-income borrowers in 2006. This performance is well below the percentage of low-income families in the PAA (18.5 percent), but significantly exceeds the aggregate lending performance of 4.1 percent. Demonstrating a similar performance in 2007, the Bank originated 7.6 percent by number, to low-income borrowers. As previously referenced in the *Description of Assessment Area* section, the lowest median sales price of all PAA cities and towns in 2006 was in Salem at \$294,500. It would be difficult for a low-income individual to qualify for a mortgage in this price range under conventional underwriting guidelines; therefore, the opportunity to lend to low-income individuals throughout the PAA is limited. Considering this challenge, Danversbank did an excellent job of meeting the credit needs of the area's low-income individuals. Furthermore, of the 11 home mortgage loans originated to low-income borrowers in 2006, 1 was for home purchase, 6 for home improvement, and 4 were refinance loans. In 2007, the Bank originated 2 home purchase loans to borrowers within this income level; 1 home improvement loan, and 5 refinance loans.

According to 2006 market share reports, Danversbank ranked 16th in lending to low-income individuals in the assessment area. The institutions ranking ahead of Danversbank in terms of number of loans to low-income borrowers are primarily large national or regional financial institutions.

The institution extended 23.4 percent of home mortgage loans by number and 13.5 percent by dollar volume to moderate-income borrowers in 2006. This performance significantly exceeds the percentage of moderate-income families in the assessment area at 17.6 percent, and the aggregate lending data at 16.6 percent. A somewhat decreasing trend of lending to moderate-income borrowers between 2006 and 2007 is evident, as 16 loans, (15.2 percent) of all home mortgages were originated to this category of borrower in 2007. This decline is indicative of competition and economic conditions.

In 2006, Danversbank ranked 33rd. Of all loans originated to moderate-income borrowers in 2006, 7 (23.3 percent) were home purchase loans, 9 (30.0%) were for home improvement, and 14 (46.7%) were refinance. The distribution of loans to moderate-income borrowers by loan purpose in 2007 was fairly equal as 5 loans each were for home purchase and home improvement, and 6 loans were for the purpose of refinance.

Community Development Lending

As defined in the CRA regulation, a community development loan (CDL) has as its primary purpose affordable housing for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing small businesses or small farms; or activities that revitalize or stabilize low- and moderate-income geographies. Furthermore, the loan must benefit the assessment area or a broader statewide area that also includes the assessment area. Loans required to be reported as home mortgage loans or small business loans cannot be reported as CDLs unless the loan is for a multi-family dwelling, meets a community development definition, and benefits the assessment area or a broader statewide area that includes the assessment area.

The institution's community development lending activities are evaluated pursuant to the following criteria: (1) the extent to which community development lending opportunities have been made available to the institution; (2) the responsiveness of the institution's community development lending; and (3) the extent of leadership the institution has demonstrated in community development lending.

Danversbank originated 8 qualified CDLs, totaling approximately \$15.5 million, representing 1.7 percent of the total loan portfolio as of March 31, 2008. This performance represents a decline from the previous FDIC CRA evaluation when the Bank made 27 loans, totaling \$48 million. Despite the decrease, the current level of CDLs originated during the review period is considered adequate, especially in light of the significant level of competition in the assessment area.

Included in the current list of CDLs are Industrial Development Bonds (IDBs) written through MassDevelopment. The IDBs directly benefit businesses in Massachusetts and are used for economic development. In each instance, Danversbank provided 100 percent financing for each bond, essentially underwriting the bonds as loans. Danversbank reported each of these IDBs on its Call Report as a loan. The IDBs are held by Five Conant Investment Corporation, a wholly-owned subsidiary of Danversbank.

The following section illustrates the CDLs that Danversbank originated during the current review period.

2005

- Danversbank refinanced a \$736,000 loan for the renovation of a 16-unit, single-room occupancy building. The purpose of the loan was to expand the number of units to 21. The property is located in Salem, Massachusetts. Units are leased on a weekly basis at well-below market rates, providing affordable rental housing for low- and moderate-income individuals.

2006

- Danversbank underwrote and financed a \$2.5 million IDB through MassDevelopment to purchase and renovate a 22,320 square foot industrial condominium in Salem, Massachusetts. This particular project directly benefits the low- and moderate-income individuals currently employed by the company. Further, with use of the loan proceeds, the company will be able to expand its employment base to neighboring low- and moderate-income geographies within the assessment area, including the cities and towns of Chelsea, Malden, Peabody, and Revere. This permanent job creation will assist in revitalizing these low- or moderate-income areas.
- Danversbank originated two loans totaling approximately \$4 million to a for-profit entity to develop 36 condominium housing units in Ipswich, of which 9 units, or 25 percent, are designated as affordable housing. The income restriction for the affordable units is set at 70 percent or less of MFI for the area. These loans were made within the Bank's PAA. The Bank received approximately \$1 million in CDL credit.

- In February 2007, Danversbank originated three loans totaling \$4.8 million, through the MassDevelopment IDB program to a non-profit organization that provides community development services to low- and moderate-income individuals in the PAA with learning, developmental, emotional, or behavioral challenges. The majority of the recipients are low- and moderate-income. This non-profit entity is headquartered in a moderate-income census tract in Beverly, Massachusetts and serves the entire assessment area. The proceeds of the loans created an additional space (17,000 square feet) for the organization to expand its services. Additionally, proceeds were also used to fund the acquisition and development of a commercial condominium in which the organization will house its early childhood development education program for the severely disabled.
- In August 2007, the Bank originated a \$6.5 million line of credit to a Boston-based, for-profit entity that engages in partnerships for low-income housing tax credit projects, including acquisition, rehabilitation, and construction of multi-family residential rental properties. These properties directly benefit low- and moderate-income individuals and families.

Innovative or Flexible Lending Practices

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product in serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

Danversbank made use of innovative and flexible lending practices that were responsive to the credit needs of the PAA. Table 13 outlines the total number and dollar volume of innovative and flexible lending activity, reflecting 261 loans totaling \$33.5 million that were originated during the evaluation period.

Table 13 - Innovative or Flexible Lending Activity by Program		
Program	Number of Loans	Dollar Volume of Loans (000s)
Commercial Programs	58	\$8,603
Residential Programs		
First-Time Home Buyer	99	\$21,009
Other Residential Programs	104	\$3,932
Total All Loans	261	\$33,544

Table 14 illustrates the number and dollar amount of innovative or flexible loans by year.

Table 14 - Innovative or Flexible Lending Activity by Year		
Year	Number of Loans	Dollar Volume of Loans (000s)
2005 (7/26/2005-12/31/2005)	47	\$5,048
2006	77	\$10,449
2007	92	\$11,039
2008 (1/1/2008-7/14/2008)	45	\$7,008
Total All Years	261	\$33,544

A consistent, and slightly increasing, trend in innovative and flexible lending activity between 2006 and 2007 is evident, with slight increases in the total number and dollar volume of loans originated in 2007 over 2006. The following sections highlight a sample of these commercial and residential programs offered by the institution.

Commercial Loan Programs

Danversbank is a designated *Preferred Small Business Administration (SBA) Lender* and offers the 7(a), Express, and 504 loan programs. Danversbank's preferred lender designation allows for expedited SBA loan application processing. The Bank ranked 13th in SBA loan originations in the Commonwealth of Massachusetts in fiscal year 2006, and 18th in 2007¹. Each loan under *Commercial Programs* in Table 14 was made through one of these SBA programs.

The 7(a) program serves as the SBA's primary business loan program to help eligible small businesses obtain financing when they might not be eligible for business loans through traditional commercial loan programs. The funds provide start-up costs to small businesses. The bank funds the entire loan, with SBA guaranteeing between 75.0 percent and 85.0 percent, depending on the use of the loan proceeds. The 7(a) program is the SBA's most flexible business loan program, as financing under this program can be guaranteed for several general business purposes, and eligibility requirements are broad. Loan proceeds can be used for most sound business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation, and new construction), leasehold improvements, and debt refinancing (under special conditions). Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.

SBA Express is available for eligible participating lenders, and is designed for expedited processing of SBA 7(a) loan applications. Loans made under the SBA Express program adhere to SBA business size, use of funds, and type of business standards.

¹ SBA fiscal year 2006 covers the timeframe of October 1, 2005 through September 30, 2006, and fiscal year 2007 spans October 1, 2007 through September 30, 2007.

The 504 Program is predominantly used for the establishment of new businesses. Under this program, the bank provides 50.0 percent of the funding, while the SBA provides 40.0 percent. The borrower is required to contribute 10.0 percent in the initial construction phase.

Home Mortgage Lending Programs

Danversbank also made use of innovative and flexible home mortgage lending programs during the evaluation period. The Bank also met the needs of its community by developing various innovative loan programs in response to assessment area events, including a 2006 chemical plant explosion in Danvers that damaged approximately 90 buildings and displaced between 300 and 400 residents.

The following sections detail a sample of the innovative or flexible home mortgage lending programs that the Bank implemented and used during the review period.

Danversbank First Time Homebuyer (“DBFTHB”) Program

DBFTHB offers home purchase financing up to 100 percent of the value of the home and provides flexible underwriting guidelines while requiring 3 percent of closing costs from the borrower’s own funds. This bank-developed program offers a 5/1 adjustable-rate mortgage with a below-market interest rate that primarily targets low- and moderate-income borrowers. DBFTHB also offers reduced closing costs. The majority of the Bank’s first time homebuyer activity during the review period was generated through this program.

MassHousing, formerly Massachusetts Housing Finance Agency Programs

During the review period, the Bank offered several home mortgage options through MassHousing, including MassAdvantage 100, First Step, Home Saver, My Community, as well as fixed-rate, conforming, first and second mortgages. The MassAdvantage 100 program offers a term of 40 years, the first 5 of which require interest only payments. The program is available for home purchase and offers flexible underwriting standards. The various home mortgage products provided through MassHousing offer 30-40 year repayment periods, allow maximum loan-to-value ratios of up to 100 percent, and specifically target low- and moderate-income first-time homebuyers. The Home Saver program primarily targets sub-prime mortgage holders who are at risk of losing their home to foreclosure.

MassHousing Septic Repair and Get the Lead out Programs

The Bank offers two loan programs developed by MassHousing that assists Massachusetts residents to obtain affordable financing for home improvement projects related to septic repair and lead removal. The programs feature flexible underwriting guidelines and terms ranging from 3 to 15 years.

Federal National Mortgage Association (FNMA)

The Bank offers FNMA Flex 97 and Flex 100 loan programs, which are available to homebuyers who may not otherwise qualify for home mortgage loans. These programs are designed to provide fixed-rate financing for single-family, owner-occupied residences, and offer terms between 15 and 30 years. Maximum loan-to-value ratios range between 97 and 100 percent, depending on the specific program.

Danversbank Disaster Loan and Home Equity Line of Credit Programs

These programs were developed in direct response to the November 2006 explosion of a chemical plant in the Danversport area. Eligibility for the programs included living or working within one-half mile of the explosion site and sustaining property damage or economic hardship as a result of the blast. Both programs were for 1-4 family residences only, and featured a zero percent interest rate during the first six months of the loan or line. The development of these programs highlight the Bank's innovativeness in responding to credit needs of its community.

INVESTMENT TEST

The Investment Test evaluates an institution's record of helping to meet credit needs through qualified investments that benefit an assessment area or a broader statewide or regional area that includes a bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Community development purposes include those that either: 1) provide affordable housing for low- or moderate- income individuals or areas; 2) provide community services targeting low- or moderate-income individuals or areas; 3) promote economic development by financing small businesses; or, 4) revitalize or stabilize low- or moderate- income geographies. Activities considered under the Lending or Service Tests may not be considered under the Investment Test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and, 4) the degree to which the qualified investments are not routinely provided by private investors. Per the regulation, qualified investments considered in this evaluation include all those acquired or made since the previous CRA examination as well as those made prior and still held by the institution, which are still outstanding and carried on the Bank's balance sheet.

Danversbank made an adequate level of qualified investments and grants that reflects a satisfactory responsiveness to the credit and community development needs of its assessment area. For purposes of the Investment Test, discussion primarily involves the Bank's activity within the PAA; however, the Bank's investments benefited the Bank's entire assessment area.

Qualified Investments

The Bank made \$850,000 in new commitments, of which \$639,545 was funded during the evaluation period. In addition, Danversbank funded \$217,577 on prior commitments since the last FDIC evaluation, dated July 25, 2005. Considering the disbursement amount of current period investments and the current book value of prior period investments, the level of qualified community development investments stood at \$761,213, representing slightly less than 0.2 percent of the Bank's total securities portfolio. The Bank's qualified grants and donations, including in-kind donations made during the evaluation period, totaled \$459,303. In addition, the Bank formed a charitable foundation in 2008 to facilitate its grant making activity. Since its formation, the foundation made \$165,100 in CRA qualified grants.

Current Period Equity Investments

The following items represent a sample of the Bank's equity investments:

Municipal Bond

The Bank purchased a municipal bond in the amount of \$300,000 in November 2006. The proceeds of the bond were used to finance the renovation and reconstruction of the City's high school and pre-kindergarten facilities, each of which is located in a moderate-income census tract. The investment benefited the City of Malden, Massachusetts.

Massachusetts Housing Investment Corporation

As part of Danversbank's acquisition of BankMalden, the Bank invested \$300,000 in the Massachusetts Housing Investment Corporation ("MHIC") in February 2007. MHIC is a non-profit organization created in 1990 and certified by the U.S. Treasury Department as a Community Development Financial Institution ("CDFI"). MHIC serves as an independent funding entity, making loans and assisting in the placement of tax credit equity investments.

Mass Business Capital Fund III, LLC ("MBCF III")

Danversbank made a commitment of \$250,000 to this fund in 2006. The Bank disbursed \$25,000 in October 2006 and an additional \$14,545 in April 2007. The fund is administered by the Massachusetts Business Development Corporation ("MBDC"), which is a Small Business Investment Corporation ("SBIC"). The purpose of the fund is to stimulate economic growth by making qualified investments in New England businesses that will create and retain employment in this region. Individual investments in businesses made through the fund typically range between \$750,000 and \$2.5 million. The current book value of the Bank's investment in this fund is \$33,045.

Advances on Prior Commitments

Mass Business Capital Fund II, LLC ("MBCF II")

In June of 2001, Danversbank committed \$250,000 to the MBCF II. The objective of the fund is to provide a long-term capital delivery mechanism to established small businesses, generally those with \$10 million or less in annual sales and in need of capital growth. In addition, the fund seeks to concurrently stimulate economic growth and promote job creation and retention in Massachusetts. The fund makes investments in the form of mezzanine instruments in amounts ranging from \$250,000 to \$750,000. Massachusetts Business Development Corporation is the general partner and invested \$2.5 million. In total, the fund offered \$10.8 million of private limited partnership interests to investors. There are 13 limited partners, consisting of individual and institutional investors, each committing between \$250,000 and \$1 million. Danversbank's overall commitment represents 2.3 percent of the fund. In June 2006, the Bank made its third installment of \$107,296, and in June 2007, the Bank funded an additional \$24,448. The current book value of the investment is \$74,282.

North Atlantic Venture Fund III, LP ("NAVF III")

Danversbank committed \$250,000 to the NAVF III in April 2001. This fund is administered by North Atlantic Capital Corporation, an SBIC. The purpose of the fund is to provide risk capital to established companies seeking growth through internal expansion or acquisition. The fund also provides financing for the recapitalization or ownership change in established businesses. The fund primarily targets businesses located in the northeastern section of the U.S. The Bank funded \$17,500 of its commitment in December 2005.

Marathon Investment LP

In 1998, a commitment of \$500,000 was made to this SBIC, which provides mezzanine and other financing to established companies in Massachusetts. This fund invests in manufacturing, distribution, and specialty retail and service businesses that are profitable and have continuing growth opportunities. In August 2006, the Bank made its final disbursement of \$68,333.

Community Development Donations

The remainder of the Bank's qualified investments consists of grants and donations. The Bank made a significant level of qualified community development grants, occasionally in a leadership position, particularly those that are not routinely provided by private investors. Between August 2005 and the current evaluation date of July 14, 2008, the Bank made \$781,595 in grants and donations, of which \$459,303 or 58.8 percent are considered qualified community development donations. Qualified donations totaled \$31,060 in 2005, \$199,164 in 2006, \$189,708 in 2007 and \$39,371 in 2008. In 2006, qualified donations represented 2.4 percent of pre-tax net operating income (NOI); whereas, this ratio decreased to 1.9 percent in 2007. Please note that these numbers do not include contributions from the newly established Danversbank Charitable Foundation, Inc.

Bank contributions supported an array of charitable organizations throughout the assessment area. These organizations provided housing and other services to low- and moderate-income individuals or promote economic development within the assessment area. The following list details a sample of the organizations that benefited from donations made by the institution.

Beverly Affordable Housing Coalition, Inc.

The mission of this organization is to help increase the availability of quality housing for low- and moderate-income individuals and families in the City of Beverly.

Beverly Bootstraps

Beverly Bootstraps is a non-profit organization that provides essential community services to individuals of low- and moderate-income, including a food pantry, literacy programs, tutoring, lunch programs, and other empowerment-type programs to help prevent hunger and homelessness.

Caritas Communities

The mission of this non-profit organization is to provide affordable housing to individuals and families of low- and moderate-income in the greater Boston area.

North Shore Housing Trust, Inc.

This non-profit organization works to create and preserve affordable housing in Essex County by focusing on the key issues of homelessness, working families, and excessive housing costs. The Trust's focus is developing innovative programs and policies that target the existing gaps in the regional North Shore affordable housing market and making housing affordable for low-income families.

Danvers Community YMCA

The Danvers Community YMCA offers a variety of programs for individuals and families. The Bank's contribution assisted low-income individuals and families who could not otherwise afford to participate in the YMCA's programs.

The Caleb Group

The Caleb Group develops, preserves, and manages rental properties to provide affordable housing for low- and moderate-income residents. The organization's service coordinators work with low- and moderate-income families to move toward economic self-reliance. The organization offers after school programs, support groups, ESL classes, financial management classes, and parenting classes that help residents address individual needs while building community.

CAPIC Head Start Program

The Head Start Program is a Community Action Agency chartered to identify and eradicate the root causes of poverty in Chelsea, Revere, and Winthrop, Massachusetts. The organization offers an after school child care program, a fuel assistance program, heating and maintenance services, and a homeless interception program.

Danvers High School Scholarships

The Bank awarded several need-based scholarships to Danvers High School students to help defray the cost of college education.

Danversbank Charitable Foundation, Inc.

In 2008, the Bank formed the Danversbank Charitable Foundation, Inc. The Foundation was established as a means to continue funding eligible non-profit organizations within the Bank's branch communities. The Bank initially provided \$350,000 and 650,000 shares of stock to the Foundation on an endowment basis.

The Foundation's grant process is conducted through three community-based programs: the Neighborhood Fund, the Malden Community Fund Program, and the Danversbank Grant Program. The focus of the Foundation is to provide funding in charitable, scientific, literary, or educational areas. To date, the Foundation contributed \$183,100, of which \$165,100, or 90.2 percent, is considered CRA-qualified. The following list details some of the organizations that benefited from the grants made through the Foundation.

North Shore Medical Center

Danversbank made sizeable contributions to this organization to fund renovations to a non-profit, community, teaching hospital located in a moderate-income tract in the Bank's assessment area. Many of the area residents and patients are low- or moderate-income.

The Jordan Boys and Girls Club

Located in Chelsea, the Jordan Boys and Girls Club helps youth face a number of serious challenges, including poverty, inadequate education, unemployment, prevalent crime, substance abuse and addiction. The majority of the children are low- and moderate-income.

Roca

A youth development organization, Roca is committed to serving the most disenfranchised and disengaged young people in the Greater Boston area including the communities of Chelsea, Revere, East Boston, and Charlestown. The organization works to build relationships with youth of low- and moderate-income means, support their transformation to live out of harm's way, and put them on a path of economic independence.

Citizens for Adequate Housing ("CAH")

CAH is a non-profit organization that assists homeless families. This Peabody based organization works to end homelessness through education and advocacy. The organization teaches life skills with a focus on economic stability and facilitates the transition from shelter to affordable housing through rental or personal ownership. The organization operates emergency shelters and purchases and develops property in support of low-income families.

SERVICE TEST

The Service Test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

Danversbank's performance in meeting the retail banking and community development service needs of the assessment area is excellent. Branch locations, many with 24-hour drive up ATMs, are located throughout the assessment area and are readily accessible and convenient. Demonstrating a leadership role in meeting community development service needs, several Bank officers and employees of all levels were actively involved with local area community organizations during the evaluation period.

For purposes of the Service Test, discussion primarily involves the Bank's activity within the PAA; however, the Bank's performance under this test benefited the Bank's entire assessment area.

Retail Banking Services

The institution's retail banking services are evaluated pursuant to the following criteria:

- 1) the distribution of the institution's branches among geographies of different income levels;
- 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals;
- 3) the availability and effectiveness of alternate systems for delivering retail banking services; and the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

Distribution of Branches

The Bank's delivery systems are readily accessible to all portions of the assessment area, including the low- and moderate- income geographies. Danversbank operates 16 branches, including the main office. Table 15 illustrates the distribution of the Bank's branches by income level of census tract.

Table 15 – Distribution of Branch Offices by Income Category				
Census Tract Income Category	Census Tracts in Assessment Area		Bank Offices by Tract Location	
	#	%	#	%
Low	2	1.8	1	6.3
Moderate	21	18.9	5	31.3
Middle	59	53.2	7	43.7
Upper	29	26.1	3	18.7
Total	111	100.0	16	100.0

In addition, the Bank also operates six remote ATM locations, three of which are in moderate-income census tracts.

Record of Opening and Closing Branches

Since the previous evaluation, the Bank opened four branches, improving availability of products and services to its customers. In October 2005, Danversbank opened a branch in the Financial District of Boston. The branch operates as a commercial loan production office, and is located on the 37th floor at One Post Office Square. As a result of the merger with BankMalden in March 2007, Danversbank acquired BankMalden's sole branch location at 1 Salem Street in Malden. In July 2007, the Bank opened a branch in a middle-income census tract in Saugus, and in June 2008, the Bank opened an additional location in Malden at 51 Commercial Street. Both Malden branches are in moderate-income census tracts.

Alternative Retail Banking Services

Danversbank's normal business hours are from 8:00 AM to 4:00 PM Monday through Friday, with extended hours on Friday nights. The majority of the Bank's branches are also open on Saturdays from 9:00 AM to 12:00 PM. In addition, one of the Danvers' branches and the Saugus branch are open from 11:00 AM until 3:00 PM on Sundays.

Of the Bank's 20 ATMs, 12 offer service in Spanish as well as English. In addition, the institution currently employs 17 individuals who are bilingual in English, Spanish, Portuguese, German, Bosnian, Italian, Albanian, Tagalog, as well as employees fluent in sign language.

Danversbank offers 24-hour telephone banking services and online banking via the Bank's website at www.danversbank.com. The Bank also established a customer support telephone center available beyond the Bank's normal hours of operation.

The Bank offers MasterMoney Debit cards that allow customers to access their checking or money market accounts. The Bank's ATM cards allow customers to access statements for savings, checking, and money market accounts. There are no fees associated with these cards at bank-operated ATMs. The Bank is a member of the SUM network, which is designed to provide consumers with surcharge-free banking alternatives throughout a broad geographic area of the Commonwealth of Massachusetts.

Community Development Services

The institution's community development services are evaluated pursuant to the following criteria:

- 1) the extent of community development services offered and used;
- 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served;
- 3) the degree to which they serve low- and moderate-income areas or individuals; and
- 4) their responsiveness to available opportunities for community development services.

Employee Services

Danversbank allots all full time employees 24 hours of paid time to perform volunteer or community service work. The Bank's staff demonstrated its commitment to the assessment area by volunteering their time and financial expertise to numerous community-oriented organizations and programs that provide community-based services such as affordable housing and economic development opportunities. The following are a few examples of the Bank's participation during the evaluation period.

- A Vice President of the Bank is on the Advisory Board of the North Shore Elder Money Management Program, which assists low- and moderate-income seniors with money management issues.
- The Danvers Housing Assistance Trust aims to develop and maintain affordable housing. The organization provides loans, conducts seminars, and provides other assistance to low- and moderate-income homebuyers. A Bank Vice President is a Board Member and Treasurer of this organization.
- The Danvers People to People Food Pantry supplies food and clothing to low- and moderate-income individuals. A member of the Bank's Board of Trustees serves as the Treasurer of this organization.
- Citizens for Adequate Housing is a non-profit organization aimed at ending homelessness. Based in Peabody, MA, the organization operates 2 shelters for homeless families and 14 units of affordable housing. A Bank Vice President serves as a Director of this organization.
- Roca is a youth development organization committed to serving the most disenfranchised and disengaged young people, a majority of who are from low- and moderate-income families, in the Greater Boston area including the communities of Chelsea, Revere, East Boston, and Charlestown. The organization works to build relationships with young people that support their transformation to live out of harm's way and put them on a path of economic independence. An Assistant Vice President of the Bank is a Board Member of this organization.

- A Danversbank Vice President serves on the Board of Directors of Salem Builder's Inc. This Salem-based community development corporation provides affordable housing and related services throughout Salem and the North Shore.

Educational Services and Seminars

Although not all of the following items specifically target low- and moderate-income individuals, they demonstrate Danversbank's commitment to community education outreach.

Reality Check Event

Demonstrating its leadership role in the provision of community development services, Danversbank developed this financial literacy program, which commenced in March 2007 and has continued on an annual basis thereafter. The Reality Check program reaches approximately 250 Danvers High School students annually. Danversbank employees of all levels, as well as Trustees and Corporators, provide their financial expertise in conducting this event.

First Time Homebuyer Seminars

Throughout the evaluation period, the Bank conducted two first time homebuyer seminars annually in both Danvers and Revere, which are offered free of cost to assist individuals in the process of buying a home. Many of the program participants are low- or moderate-income.

FDIC's Money Smart Program

In association with the North Shore Education Consortium, representatives of Danversbank are actively involved in this FDIC financial literacy program. The courses are offered at the North Shore Community College in October and November of each year; the sessions in November are also offered in Spanish.

Teach the Children to Save Day

The American Bankers Association established this program to teach youth the importance of saving money. The event occurs every April when bankers make presentations to students in grades K-12 about budgeting, saving, recognizing needs and wants, and how interest makes money grow. During the evaluation period, representatives of Danversbank taught this program in elementary schools in Lynn, Danvers, Middleton, Reading, Revere, Winthrop, Wilmington, and Peabody.

Fraud Seminars

Danversbank representatives regularly conduct fraud seminars at various nursing home and assisted living facilities. The seminars focus on identity theft and current fraud schemes. Between 2006 and 2008, the Bank conducted eight seminars in Beverly, Danvers, Malden, Peabody, Saugus, and Woburn.

Your Checking Account

The Bank provides Danvers High School and Masconomet Regional High School in Topsfield with copies of an instructional program titled, Your Checking Account. In an effort to promote financial literacy, the Bank provides materials directly to the schools for use in the classroom.

Other Community Services

The Bank participates in the Massachusetts Community Banking Council ("MCBC") Basic Banking for Massachusetts Program. Basic Banking is a voluntary program to expand access to bank products and services and to encourage those with modest incomes to establish banking relationships by offering low cost banking. The Bank's free checking, passbook, and statement savings accounts qualify as Basic Banking Service Accounts under the MCBC program.

Since August of 2005, the Bank conducted a bank-wide back-to-school drive. The program was offered by the Massachusetts Coalition for the Homeless, and furnished school supplies to homeless, and formerly homeless, children. Through this program, the Bank encourages employees, as well as customers, to purchase backpacks and supplies for children who would otherwise be unable to afford them. The Bank collects these items through its various branch locations and delivers them to the Massachusetts Coalition for the Homeless.

The Bank also provided space in one of its locations as a community meeting room. This room can be used free of charge by community-based organizations. Some of the organizations who used the room include: Catholic Charities, Hospice of the North Shore, Department of Social Services, and Help for Abused Women and Children.

The United Way of Massachusetts Bay holds an annual event called Community Care Day. This event brings together employees from companies throughout the area to spend a day volunteering at various local organizations that offer youth services such as early literacy, family-sustaining employment, affordable housing, and other basic needs. In 2005, 7 Danversbank employees participated in the program, focusing on affordable housing in Danvers, Peabody, and Salem. In 2006, over 30 employees volunteered; in 2007, 20 employees participated in the event.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE SECONDARY

LENDING TEST

The Bank's lending activities within the SAA were analyzed under *limited scope* procedures, and performance within this segment is assigned less weight in arriving at an overall CRA rating. The SAA is comprised of only one census tract, so minimal analysis is required. This geography is included in the Bank's assessment area due to the location of the one branch office in downtown Boston. The CRA requires separate analysis and conclusions for each separately defined assessment area, but allows for limited analysis under certain circumstances.

Of the 423 small business loans originated by Danversbank in 2006 and 2007, 3 (in 2007) were to businesses within the Bank's SAA. Aggregate data for 2006 indicate that 1,809 loans were originated by other financial institutions in the same census tract. The majority of this activity typically comprises commercial credit card lending, a product not offered by Danversbank.

The Bank did not originate any home mortgage loans in the SAA in 2006 or 2007. Data from the 2000 U.S. Census reveal that this single census tract contains only 2,610 housing units, of which 836 are owner-occupied. Further, a majority of these units are occupied rentals or vacant, representing 68.0 percent of total units. In 2006, 54 financial institutions originated at least one home mortgage in this census tract, with the top lender being Bank of America, N.A., originating 17 loans.

The Bank's community development loans and innovative and flexible lending practices, though not directly originated in the SAA, benefited a broader statewide or regional area that included the SAA.

INVESTMENT TEST

Of the institution's community development donations made during the review period, \$14,250 (1.82 percent) directly benefited organizations in the single census tract of the SAA. Opportunities for qualified donations are limited in this one census tract. However, the Bank's overall community development grants and donations, though not directly originated in the SAA, benefited a broader statewide or regional area that included the SAA.

SERVICE TEST

The institution's Service Test performance in the SAA is limited to one branch location in the Financial District of Boston, which is located in an upper-income census tract. Although no community development services were of direct benefit to the single census tract comprising the SAA, such Bank activities were of benefit to a broader region that included the SAA.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation. A review of lending policies and procedures as well as approved and denied credit applications did not reveal any evidence of prohibited discriminatory or other illegal credit practices.

APPENDIX A

Fair Lending Policies and Practices

MINORITY APPLICATION FLOW

The purpose of the minority application flow is to assess the number of HMDA-reportable applications the Bank received from minorities within their delineated assessment area. The data analyzed was obtained from the Bank's HMDA/LAR for 2006 and 2007. In addition, the 2006 HMDA/LAR aggregate data was also analyzed in order to measure the Bank's performance relative to all other lenders within the assessment area.

The Bank received a total of 312 HMDA-reportable applications over the time period, of which 6 or 1.9 percent were received from minority applicants.

MINORITY APPLICATION FLOW								
RACE	Bank 2006		2006 Aggregate Data		Bank 2007		Bank TOTAL	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	297	0.5	0	0.0	0	0.0
<i>Asian</i>	2	1.2	1,313	2.1	2	1.3	4	1.3
<i>Black/ African American</i>	1	0.6	1,511	2.4	1	0.7	2	0.6
<i>Hawaiian/Pac Isl.</i>	0	0.0	168	0.3	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	34	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	0	0.0	364	0.6	0	0.0	0	0.0
Total Minority	3	1.8	3,687	6.0	3	2.0	6	1.9
<i>White</i>	156	96.4	39,936	64.6	138	92.0	294	94.2
<i>Race Not Available</i>	3	1.8	18,149	29.4	9	6.0	12	3.9
Total	162	100.0	61,772	100.0	150	100.0	312	100.0
ETHNICITY								
<i>Hispanic or Latino</i>	3	1.8	4,918	8.0	3	2.0	6	1.9
<i>Not Hispanic or Latino</i>	155	95.7	39,217	63.5	137	91.3	292	93.6
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	1	0.7	401	0.6	1	0.7	2	0.6
<i>Ethnicity Not Available</i>	3	1.8	17,236	27.9	9	6.0	12	3.9
Total	162	100.0	61,772	100.0	150	100.0	312	100.0

As indicated in the table above, in 2006 the percentage of applications the Bank received from minority borrowers was below that received by the aggregate. The Bank received a slightly higher percentage of applications in 2007.

In addition, the Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area. The comparison of these data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. According to 2000 Census Data, the Bank's assessment area contained a total population of 6,349,097 individuals, 18.1% of which is representative of various racial and ethnic minorities. The breakout of the assessment areas minority population is as follows: 3.7% Asian, 6.8% Hispanic, 5.0%

Black, 0.2% American Indian/ Alaska Native and 2.4% were identified as “other race”. As indicated the Bank’s percentages are highly comparable to the demographics of the assessment area in 2006, the Bank’s performance levels are also compared to the application levels of all other HMDA reporters in the Bank’s assessment area in that year. The Bank’s percentages declined in 2007.

APPENDIX B

Loss of Affordable Housing – Massachusetts Division of Banks

The Division of Banks' regulation 209 CMR 46.22(2)(g) requires that the evaluation of the lending performance of a large institution include a review of its efforts to forestall the loss of affordable housing. The Division reviews the institution's loans to ensure that there is no undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units.

Danversbank's development of credit products with flexible lending criteria, participation in flexible lending programs, community development lending, and lending to low- and moderate-income borrowers has assisted low- and moderate-income individuals to remain in their neighborhoods.

APPENDIX C

General Definitions

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by non-farm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX D - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX E - STANDARD PUBLIC EVALUATION LANGUAGE

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 1 Conant Street, Danvers, MA 01923"

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.